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**Anthony M. Alessi**  
Director  
Federal Relations

December 13, 1994

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, NW  
Room 222  
Washington, DC 20554

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DEC 13 1994

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: **Ex Parte Statement**  
Docket No. 94-1

Dear Mr. Caton:

On December 12, 1994, Mr. Pablo Spiller, Professor of Business and Public Policy, University of California at Berkeley, Mr. Daniel Fling - Director, Federal Regulatory Policy of Ameritech and I met with Mr. James Coltharp, Special Advisor to Commissioner Barrett, to discuss our position in the above referenced proceeding. The attached material was used as the basis for our discussion.

Sincerely,

Attachment  
cc: J. Coltharp

No. of Copies rec'd 022  
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# **INCENTIVE REGULATION AND DIGITAL INFRASTRUCTURE DEPLOYMENT BY LECS**

by

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and  
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University of California, and LECG

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## THE ISSUE

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- **WHO WILL BUILD THE INFORMATION SUPERHIGHWAY?**
- **KEY ROLE OF LECS**
- **DOES REGULATION INFLUENCE INVESTMENT?**

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# **OVERVIEW**

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- **EMPIRICAL**
- **LEC SPECIFIC INFORMATION ON**  
**REGULATION**  
**DEPLOYMENT OF FIBER OPTIC &**  
**COMPLEMENTARY TECHNOLOGIES**  
**BUSINESS & DEMOGRAPHIC**
- **ALTERNATIVE ECONOMETRIC MODELS**

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# **DATA**

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- **PANEL DATA**

**LEC TERRITORY WITHIN A STATE**

**101 LECS PER YEAR (1986/91)**

- **ENDOGENOUS VARIABLES:**

**FIBER OPTIC CABLE (1986/91)**

**ISDN LINES, SS7, DSPC SWITCHES  
(89/91)**

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# **DATA**

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- **REGULATORY VARIABLES, LEC SPECIFIC**

**PRICE REGULATION**

**PRICE CAP**

**PRICE FREEZE**

**EARNINGS SHARING**

**OTHER VARIABLES MEASURING**

**ENTRY**

**BYPASS**

**COMPETITION RESTRICTIONS**

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# **DATA**

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- **EXOGENOUS VARIABLES, LEC SPECIFIC:**

**LAND AREA**

**POPULATION (URBAN/RURAL)**

**PER-CAPITA INCOME**

**MANUFACTURING, FIRE INCOME**

**CONSTRUCTION WAGES**

- **EXOGENOUS VARIABLES, GENERAL**

**NUMBER OF LECS IN STATE**

**YEAR AND LEC TYPE DUMMY VARIABLES**

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# **RESULTS**

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- **DIFFERENT ESTIMATION METHODS**  
  
**PARTIAL ADJUSTMENT MODEL**  
**BASELINE GROWTH MODEL**
- **PRICE REGULATION HAS STATISTIC AND ECONOMIC SIGNIFICANCE ON DEPLOYMENT OF FIBER, SS7 AND ISDN**
- **EARNINGS SHARING DOES NOT**



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# **RESULTS**

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- **COUNTERFACTUAL**

## **SAMPLE**

**LECS WITH NO INCENTIVE  
REGULATION AS OF 1991**

## **METHOD**

**IMPOSE ALTERNATIVE TYPES OF  
INCENTIVE SCHEMES**

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## RESULTS

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### FIBER

	PARTIAL ADJUSTMENT	BASELINE GROWTH
PRICE REG	80%	130%
PRICE REG & E.S.	40%	55%
EARNINGS SHARING	30%	-50%

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## **OVERVIEW: MAIN RESULTS**

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- **INCENTIVE REGULATION STRONGLY  
INFLUENCES DEPLOYMENT  
PRICE REGULATION PROVIDES STRONG  
INCENTIVES  
EARNINGS SHARING DOES NOT  
PRICE REG. AND E.S. COMBINED  
PROVIDE LITTLE INCENTIVES**
- **DEMOGRAPHICS ARE IMPORTANT**
- **RBOCS ARE NO DIFFERENT THAN  
ANYBODY ELSE**

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## **FINAL COMMENTS**

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- **PRICE INCENTIVES MATTER**
- **ALTERNATIVE REGULATORY STRUCTURES  
HAVE DIFFERENT DEPLOYMENT EFFECTS**
- **SIMPLE REGULATORY STRUCTURES ARE  
SUPERIOR**